

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

INDEPENDENT AUDITORS' REPORT

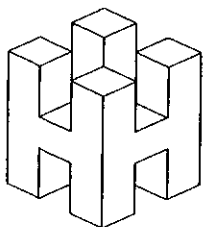
DECEMBER 31, 2010

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

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## INDEPENDENT AUDITORS' REPORT

Board of Supervisors  
Dakota Dunes Community  
Improvement District  
Union County, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT, Union County, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dakota Dunes Community Improvement District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Dakota Dunes Community Improvement District as of December 31, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2011, on our consideration of the Dakota Dunes Community Improvement District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Dakota Dunes Community Improvement District's financial statements as a whole. Other supplementary information included in this report (shown on page 38) is presented for purposes of additional analysis and is not a required part of the financial statements. The Budgetary Comparison Schedule - General Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

As discussed in Note 15 to the financial statements, during Summer 2011, the District experienced a significant flooding event requiring substantial emergency construction of a levee system to protect the District's infrastructure and other real property within the District.

*Henjes, Cannon & Williams, P.C.*

Certified Public Accountants

Sioux City, Iowa  
November 10, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Dakota Dunes Community Improvement District's annual financial report presents management's discussion and analysis of the District's financial performance for the year ended on December 31, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The District's General Fund revenues generated from charges for services, property taxes and other revenues of \$1,016,660. This is a 5.2 percent increase from 2009. This increase in revenue can mostly be attributed to additional property tax collections. This tax collection was a result of an increase in the taxable value of Dakota Dunes. There was no change in the mill levy. Charges for services and other revenues included in the above total revenues generated \$4,275 from contract revenues and \$19,685 from cable franchise fees. Total expenditures from the General Fund in 2010 were \$891,731, which was a decrease of 7.9 percent from 2009 expenditures of \$968,027. The decrease was primarily due to lower capital expenditures in 2010. This resulted in a net increase in fund balance of \$124,929. The District's General Fund cash increased approximately \$170,000 in 2010. This is due to excess cash accumulated from more revenues than expenses in 2010.
- In the District's business-type activities (Enterprise Fund), operating revenue increased from \$727,631 in 2009 to \$861,256 in 2010, while operating expenses decreased from \$1,117,279 in 2009 to \$997,187 in 2010, a 10.7 percent decrease. The decrease in expense is primarily due to major rehabilitation of the sanitary sewer lift stations completed during 2009 that were not incurred in 2010. Effective July 24, 2009 a sewer rate increase went into effect. At that time, the volume included in the base sewer rate was reduced by 1,000 gallons. The base volume was further reduced by an additional 1,000 gallons in January 2010 and January 2011. The sewer is billed at \$2.00 per thousand gallons.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities (on pages 11-13) provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 14. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

The following summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

## Major Features of Dakota Dunes' Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Dakota Dunes CID (except fiduciary funds and the fiduciary component units)	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses, the water and sewer systems
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Assets *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

### Reporting the District as a Whole

#### The Statement of Net Assets and the Statement of Activities

Our analysis of the District as a whole begins on page 6. One of the most important questions asked about the District's finances: "Is the District as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. The District's net assets is the difference between assets, what the District owns, and liabilities, what the District owes, and is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, however, such as changes in the District's property tax base and cost structure affect the overall health of the District.

#### Reporting the District's Most Significant Funds

Fund Financial Statements:	<u>Major Funds</u>
	- General
	- Water
	- Sewer

The fund financial statements begin on page 14 and provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law. However, the Board of Supervisors establishes other funds to help it control and manage cash for particular purposes. The District has two kinds of funds.

Government Funds: The District's services are reported in governmental funds, which focus on how cash flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation following the fund financial statements.

Proprietary Funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's two enterprise funds - water and sewer, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 37 of this report.

## THE DISTRICT AS A WHOLE

The District's total net assets decreased from a year ago, from \$27.0 million to \$26.8 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities and business-type activities.

**Table 1**  
**Summary of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Current and Other Assets	\$ 519,270	\$ 685,902	\$ 697,527	\$ 579,454	\$ 1,216,797	\$ 1,265,356
Capital Assets	<u>16,858,638</u>	<u>16,526,926</u>	<u>9,335,901</u>	<u>9,292,065</u>	<u>26,194,539</u>	<u>25,818,991</u>
Total Assets	\$ 17,377,908	\$ 17,212,828	\$ 10,033,428	\$ 9,871,519	\$ 27,411,336	\$ 27,084,347
Long-term Debt Outstanding	\$ 61,703	\$ 35,666	\$ 71,032	\$ 46,065	\$ 132,735	\$ 81,731
Other Liabilities	<u>53,513</u>	<u>96,555</u>	<u>190,547</u>	<u>33,244</u>	<u>244,060</u>	<u>129,799</u>
Total Liabilities	\$ 115,216	\$ 132,221	\$ 261,579	\$ 79,309	\$ 376,795	\$ 211,530
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 16,756,935	\$ 16,421,817	\$ 9,264,869	\$ 9,246,000	\$ 26,021,804	\$ 25,667,817
Restricted	12,190	12,190	-	-	12,190	12,190
Unrestricted	<u>493,567</u>	<u>646,600</u>	<u>506,980</u>	<u>546,210</u>	<u>1,000,547</u>	<u>1,192,810</u>
Total Net Assets	\$ 17,262,692	\$ 17,080,607	\$ 9,771,849	\$ 9,792,210	\$ 27,034,541	\$ 26,872,817

Total net assets of the District decreased by approximately \$160,000 in 2010 and increased by approximately \$2,100,000 in 2009. The \$2,100,000 increase in total net assets in 2009 was largely due to capital grants and contributions of about \$2,900,000. Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from approximately \$1,000,000 at the end of 2009 to \$1,190,000 at the end of 2010.



Table 2 compares the 2010 change in net assets to the 2009 change in net assets.

**Table 2**  
**Summary of Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total		Percent
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>Change</u>
Revenues:							
Program Revenues:							
Charges for Services	\$ 5,963	\$ 4,275	\$ 694,198	\$ 803,277	\$ 700,161	\$ 807,552	15.3%
Capital Grants and Contributions	2,123,232	296,838	860,065	167,775	2,983,297	464,613	-84.4%
General Revenues:							
Property Taxes	942,113	988,064	-	-	942,113	988,064	4.9%
Other	30,099	24,618	43,742	48,657	73,841	73,275	-0.8%
Total Revenues	\$ 3,101,407	\$ 1,313,795	\$ 1,598,005	\$ 1,019,709	\$ 4,699,412	\$ 2,333,504	-50.3%
Expenses:							
General Government	\$ 270,371	\$ 292,185	\$ -	\$ -	\$ 270,371	\$ 292,185	8.1%
Public Safety	77,453	86,453	-	-	77,453	86,453	11.6%
Public Works	752,491	781,393	-	-	752,491	781,393	3.8%
Culture and Recreation	349,774	332,575	-	-	349,774	332,575	-4.9%
Interest	4,588	3,274	-	-	4,588	3,274	-28.6%
Water	-	-	569,350	594,784	569,350	594,784	4.5%
Sewer	-	-	551,595	404,564	551,595	404,564	-26.7%
Total Expenses	\$ 1,454,677	\$ 1,495,880	\$ 1,120,945	\$ 999,348	\$ 2,575,622	\$ 2,495,228	-3.1%
Change in Net Assets	\$ 1,646,730	\$ (182,085)	\$ 477,060	\$ 20,361	\$ 2,123,790	\$ (161,724)	
Net Assets - Beginning	15,615,962	17,262,692	9,118,675	9,771,849	24,734,637	27,034,541	
Prior Period Restatement	-	-	176,114	-	176,114	-	
Net Assets - Ending	\$ 17,262,692	\$ 17,080,607	\$ 9,771,849	\$ 9,792,210	\$ 27,034,541	\$ 26,872,817	

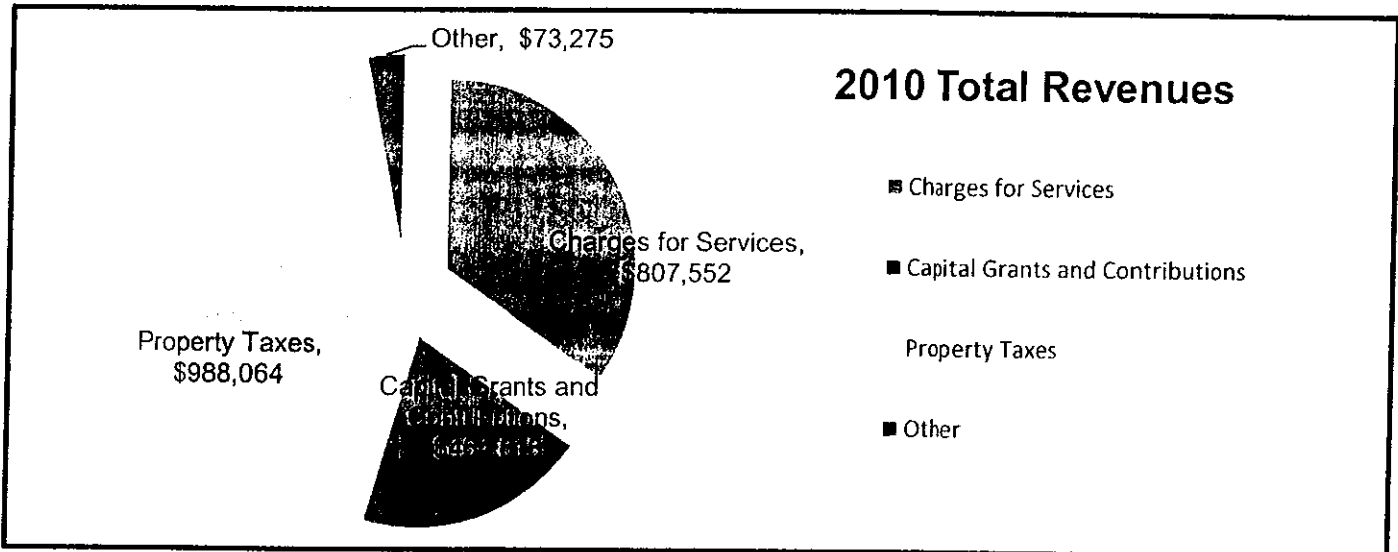
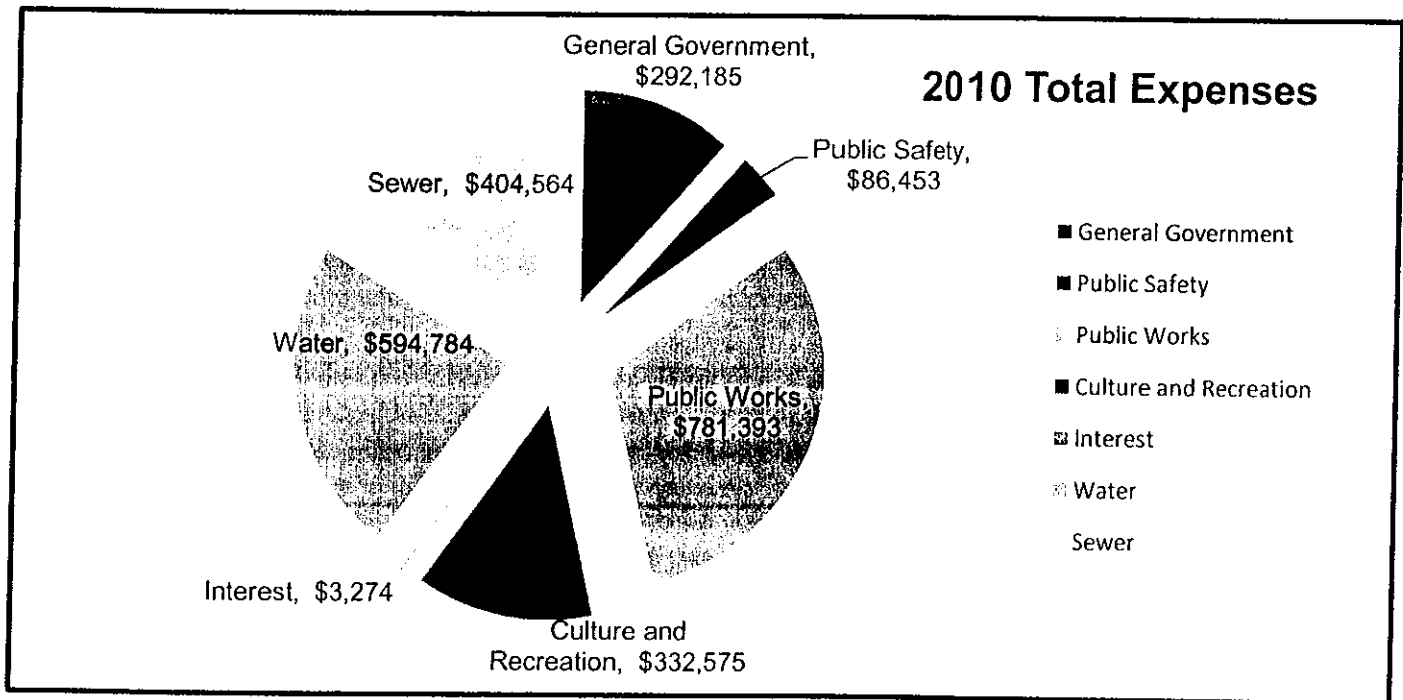


Table 3 presents the cost of each of the District's programs as well as each program's net cost (total cost less revenues generated by activities). The net cost shows the financial burden that was placed on the District by each of these functions.

**Table 3**  
**Cost of Services**

	Total Cost of Services		Net (Cost) Revenue of Services	
	2009	2010	2009	2010
General Government	\$ 270,371	\$ 292,185	\$ (270,371)	\$ (292,185)
Public Safety	77,453	86,453	(71,490)	(82,178)
Public Works	752,491	781,393	1,370,741	(484,555)
Culture and Recreation	349,774	332,575	(349,774)	(332,575)
Interest	4,588	3,274	(4,588)	(3,274)
Water	569,350	594,784	289,823	3,452
Sewer	551,595	404,564	143,495	(31,748)
	<u>\$ 2,575,622</u>	<u>\$ 2,495,228</u>	<u>\$ 1,107,836</u>	<u>\$ (1,223,063)</u>



## THE DISTRICT'S FUNDS

The financial analysis of the District's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The District currently has one governmental fund - the general fund, and two business-type funds, water and sewer. None of the District's funds had deficit balances at December 31, 2010.

## GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund 2010 revenues were over budget by \$9,579. The General Fund expenditures consist of General Government, Public Safety, Public Works, Culture and Recreation, Capital Outlay, and Debt Service. Within this budget, Dakota Dunes Community Improvement District spent \$78,119 less than budgeted in 2010. This can be explained by unused dollars within the general government, public safety, public works and capital outlay line items. In contrast, culture and recreation was over budget by approximately \$12,500 due to increased cost related to snow removal. The unusual snow removal charges of \$25,127 were charged to emergency disaster prevention since they should not occur every year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets decreased by approximately \$370,000. This is mainly attributable to depreciation and amortization expense of \$1,000,000 and capital asset additions of \$630,000.

**Table 4**  
**Capital Assets Net of Accumulated Depreciation**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
Land	\$ 2,252,320	\$ 2,256,861	\$ 73,806	\$ 73,806	\$ 2,326,126	\$ 2,330,667
Improvements other than Buildings	14,261,098	13,976,017	9,081,212	9,004,071	23,342,310	22,980,088
Machinery and Equipment	345,220	294,048	12,361	9,022	357,581	303,070
Intangible Assets	-	-	168,522	205,166	168,522	205,166
Total Capital Assets (Net)	<u>\$ 16,858,638</u>	<u>\$ 16,526,926</u>	<u>\$ 9,335,901</u>	<u>\$ 9,292,065</u>	<u>\$ 26,194,539</u>	<u>\$ 25,818,991</u>

This year's major capital asset additions were infrastructure (land, street, signage, storm sewer, sanitary sewer and water) donated for public use and maintenance. They include:

- Tract A, Dakota Dunes Golf Course 28th Addition, East Pinehurst Trail

### Long-Term Liabilities

At year-end, the District had long-term liabilities of \$92,363.

Total outstanding debt relating to financing leases for equipment purchases totaled \$35,666. The District retired approximately \$25,000 of the State Revolving Fund (SRF) loan for the water interconnect project, resulting in a balance of \$46,065 at December 31, 2010.

In addition, the District is liable for accrued sick leave payable (\$10,632 at 2010, \$7,323 at 2009) to full-time employees who have been employed for more than 10 years. The increase in accrued sick leave payable is due to salary increases, an increase in the amount of leave accumulated and outstanding at the end of the year by these full-time employees, and one employee reaching the 10 year mark during 2010.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's current economic position has continued to improve. The District experienced a 12.9 percent increase in total taxable valuation in 2011 to \$357,352,920 as compared to the prior year. The increase in property valuation allows the District the ability to increase the amount of revenue generated from property taxes by approximately \$66,127 or 6.7 percent, while decreasing the mill levy from 3.10 to 2.95 which is a 4.8 percent decrease. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower, plus the growth rate.

Unlike municipalities, the District does not have authority to assess a sales tax. Therefore, a substantial amount of General Fund revenues comes from property tax.

The District-adopted General Fund operating budget for the 2011 fiscal year increased 2.8 percent to \$833,305. An additional \$149,000 is budgeted for capital purchases and \$19,000 for lease payments.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the cash it receives. If you have questions about this report or need additional information, contact the District's Finance Office, P.O. Box 1997, 335 Sioux Point Road, Suite 200, Dakota Dunes, South Dakota 57049.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF NET ASSETS

DECEMBER 31, 2010

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
<b><u>ASSETS</u></b>			
Cash .....	\$ 515,016	\$ 206,233	\$ 721,249
Certificates of Deposit .....	103,684	317,146	420,830
Taxes Receivable .....	18,976		18,976
Accounts Receivable - Net .....	27,244	48,169	75,413
Inventory .....	8,792	7,906	16,698
Deposits .....	12,190		12,190
Capital Assets:			
Land .....	2,256,861	73,806	2,330,667
Other Capital Assets, Net of Depreciation .....	14,270,065	9,013,093	23,283,158
Intangible Assets, Net of Amortization .....		<u>205,166</u>	<u>205,166</u>
Total Assets .....	\$ 17,212,828	\$ 9,871,519	\$ 27,084,347
<b><u>LIABILITIES</u></b>			
Accounts Payable and Accrued Expenses .....	\$ 86,686	\$ 32,481	\$ 119,167
Internal Balances .....	5,074	( 5,074)	-
Long-Term Liabilities:			
Due Within One Year .....	17,372	25,852	43,224
Due in More than One Year .....	<u>23,089</u>	<u>26,050</u>	<u>49,139</u>
Total Liabilities .....	\$ <u>132,221</u>	\$ <u>79,309</u>	\$ <u>211,530</u>
<b><u>NET ASSETS</u></b>			
Invested in Capital Assets, Net of Related Debt .....	\$ 16,421,817	\$ 9,246,000	\$ 25,667,817
Restricted for Risk Management .....	12,190		12,190
Unrestricted .....	<u>646,600</u>	<u>546,210</u>	<u>1,192,810</u>
Total Net Assets .....	\$ <u>17,080,607</u>	\$ <u>9,792,210</u>	\$ <u>26,872,817</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

		<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Capital Grants and Contribution</u>
	<u>Expenses</u>		
<u>GOVERNMENTAL ACTIVITIES</u>			
General Government .....	\$ 292,185		
Public Safety .....	86,453	\$ 4,275	
Public Works .....	781,393		\$ 296,838
Culture and Recreation .....	332,575		
Interest on Long-Term Debt .....	<u>3,274</u>		
Total Governmental Activities .....	\$ 1,495,880	\$ 4,275	\$ 296,838
<u>BUSINESS-TYPE ACTIVITIES</u>			
Water .....	\$ 594,784	\$ 505,276	\$ 92,960
Sewer .....	<u>404,564</u>	<u>298,001</u>	<u>74,815</u>
Total Business-Type Activities .....	\$ <u>999,348</u>	\$ <u>803,277</u>	\$ <u>167,775</u>
Total Primary Government .....	\$ <u>2,495,228</u>	\$ <u>807,552</u>	\$ <u>464,613</u>

GENERAL REVENUES:

Property Taxes .....

Unrestricted Investment Earnings .....

(Loss) on Disposal of Capital Assets .....

Rental Income .....

Miscellaneous .....

Total General Revenues .....

Change in Net Assets .....

Net Assets - Beginning .....

Prior Period Restatement .....

Net Assets - Ending .....

<u>Net (Expense) Revenue</u> <u>and Changes in Net Assets</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
\$ ( 292,185)		\$ ( 292,185)
( 82,178)		( 82,178)
( 484,555)		( 484,555)
( 332,575)		( 332,575)
( <u>3,274</u> )		( <u>3,274</u> )
\$ ( 1,194,767)	-	\$ ( 1,194,767)
	\$ 3,452	\$ 3,452
	( <u>31,748</u> )	( <u>31,748</u> )
	\$ ( <u>28,296</u> )	\$ ( <u>28,296</u> )
\$ ( 1,194,767)	\$ ( 28,296)	\$ ( 1,223,063)
\$ 988,064		\$ 988,064
2,073	\$ 6,158	8,231
	( 15,480)	( 15,480)
2,250	43,222	45,472
<u>20,295</u>	<u>14,757</u>	<u>35,052</u>
\$ <u>1,012,682</u>	\$ <u>48,657</u>	\$ <u>1,061,339</u>
\$ ( 182,085)	\$ 20,361	\$ ( 161,724)
17,262,692	9,603,327	26,866,019
	<u>168,522</u>	<u>168,522</u>
\$ <u>17,080,607</u>	\$ <u>9,792,210</u>	\$ <u>26,872,817</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

BALANCE SHEET

GOVERNMENTAL FUND

DECEMBER 31, 2010

	<u>General Fund</u>
<u>ASSETS</u>	
Cash .....	\$ 515,016
Certificates of Deposit .....	103,684
Taxes Receivable .....	18,976
Accounts Receivable - Net .....	27,244
Inventories .....	8,792
Deposits .....	<u>12,190</u>
Total Assets .....	\$ <u>685,902</u>
<u>LIABILITIES</u>	
Accounts Payable .....	\$ 80,255
Accrued Wages .....	6,431
Deferred Revenue .....	14,845
Interfund Payable .....	<u>5,074</u>
Total Liabilities .....	\$ 106,605
<u>FUND BALANCES</u>	
Reserved:	
Inventory .....	\$ 8,792
Deposits .....	12,190
Unreserved .....	<u>558,315</u>
Total Fund Balances .....	\$ <u>579,297</u>
Total Liabilities and Fund Balances .....	\$ <u>685,902</u>

See Accompanying Notes to Financial Statements



DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT  
RECONCILIATION OF THE BALANCE SHEET -  
GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2010

Total governmental fund balances (page 14)	\$ 579,297
Amounts reported in governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	16,526,926
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	( 40,461)
Taxes receivable - delinquent are not available to pay for current period expenditures and therefore are deferred in the funds	<u>14,845</u>
Total net assets of governmental activities (page 11)	\$ <u>17,080,607</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General Fund</u>
<u>REVENUES</u>	
Property Taxes .....	\$ 987,767
Charges for Services .....	4,275
Rental Income .....	2,250
Interest .....	2,073
Miscellaneous .....	<u>20,295</u>
Total Revenues .....	\$ 1,016,660
<u>EXPENDITURES</u>	
Current:	
General Government .....	\$ 288,350
Public Safety .....	71,303
Public Works .....	186,969
Culture and Recreation .....	249,070
Capital Outlay .....	66,728
Debt Service:	
Principal .....	26,037
Interest .....	<u>3,274</u>
Total Expenditures .....	\$ <u>891,731</u>
Net Change in Fund Balance .....	\$ 124,929
Fund Balance - Beginning of Year .....	<u>454,368</u>
Fund Balance - End of Year .....	\$ <u><u>579,297</u></u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010

Net change in fund balances - total governmental fund (page 16) .....	\$ 124,929
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Amounts reported in governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Expenditures for Capital Outlays .....	\$ 66,728	
Depreciation Expense .....	( <u>695,277</u> )	( 628,549)

Donated capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not reported as expenditures in governmental funds .....	296,838
--	---------

Compensated absences reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds .....	( 1,637)
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Revenue reported as deferred revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements .....	297
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Payment on capital lease is an expenditure in the governmental funds but reduces long-term liabilities in the statement of net assets.	<u>26,037</u>
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Change in net assets of governmental activities (page 12-13) .....	\$( <u>182,085</u> )
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DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

DECEMBER 31, 2010

	<u>ASSETS</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<u>CURRENT ASSETS</u>				
Cash .....	\$ 206,233			\$ 206,233
Certificates of Deposit .....	317,146			317,146
Accounts Receivable, Net .....	20,325	\$ 27,844		48,169
Interfund Receivable .....	149,107			149,107
Inventories .....	<u>7,906</u>			<u>7,906</u>
Total Current Assets .....	\$ 700,717	\$ 27,844		\$ 728,561
<u>CAPITAL ASSETS</u>				
Land .....	\$ 72,826	\$ 980		\$ 73,806
Improvements Other Than Buildings .....	8,034,057	5,155,656		13,189,713
Machinery and Equipment .....	54,804			54,804
Intangible Assets .....	<u>244,864</u>			<u>244,864</u>
	\$ 8,406,551	\$ 5,156,636		\$ 13,563,187
Less Accumulated Depreciation and Amortization ..	<u>2,593,033</u>	<u>1,678,089</u>		<u>4,271,122</u>
Capital Assets, Net .....	\$ 5,813,518	\$ 3,478,547		\$ 9,292,065
Total Assets .....	\$ <u>6,514,235</u>	\$ <u>3,506,391</u>		\$ <u>10,020,626</u>
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable .....	\$ 6,819	\$ 15,383		\$ 22,202
Accrued Wages .....	6,434	2,145		8,579
Customer Deposits .....	700			700
Deferred Revenue .....	1,000			1,000
Interfund Payable .....		144,033		144,033
Current Portion of Note Payable - SRF Loan .....	<u>25,852</u>			<u>25,852</u>
Total Current Liabilities .....	\$ 40,805	\$ 161,561		\$ 202,366
<u>NON-CURRENT LIABILITIES</u>				
Note Payable - SRF Loan .....	\$ 20,213			\$ 20,213
Compensated Absences .....	<u>4,378</u>	\$ <u>1,459</u>		<u>5,837</u>
Total Non-Current Liabilities .....	\$ 24,591	\$ 1,459		\$ 26,050
<u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt .....	\$ 5,767,453	\$ 3,478,547		\$ 9,246,000
Unrestricted .....	<u>681,386</u>	<u>( 135,176)</u>		<u>546,210</u>
Total Net Assets .....	\$ <u>6,448,839</u>	\$ <u>3,343,371</u>		\$ <u>9,792,210</u>
Total Liabilities and Net Assets .....	\$ <u>6,514,235</u>	\$ <u>3,506,391</u>		\$ <u>10,020,626</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF REVENUES,  
EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<u>OPERATING REVENUES</u>			
Charges for Services .....	\$ 505,276	\$ 298,001	\$ 803,277
Rental Revenue .....	43,222		43,222
Miscellaneous Income .....	<u>5,834</u>	<u>8,923</u>	<u>14,757</u>
Total Operating Revenues .....	\$ 554,332	\$ 306,924	\$ 861,256
<u>OPERATING EXPENSES</u>			
Personal Services .....	\$ 180,309	\$ 57,590	\$ 237,899
Other Current Expense .....	222,564	234,873	457,437
Depreciation .....	180,423	112,101	292,524
Amortization .....	<u>9,327</u>		<u>9,327</u>
Total Operating Expenses .....	\$ <u>592,623</u>	\$ <u>404,564</u>	\$ <u>997,187</u>
Operating (Loss) .....	\$( 38,291)	\$( 97,640)	\$( 135,931)
<u>NON-OPERATING REVENUES (EXPENSES)</u>			
(Loss) on Disposal of Capital Assets .....		\$( 15,480)	\$( 15,480)
Investment Earnings .....	\$ 4,622	1,536	6,158
Interest Expense .....	( <u>2,161</u> )		( <u>2,161</u> )
Total Non-Operating Revenues .....	\$ <u>2,461</u>	\$( <u>13,944</u> )	\$( <u>11,483</u> )
(Loss) Before Contributions .....	\$( 35,830)	\$( 111,584)	\$( 147,414)
Capital Contributions .....	<u>92,960</u>	<u>74,815</u>	<u>167,775</u>
Change in Net Assets .....	\$ 57,130	\$( 36,769)	\$ 20,361
Net Assets - Beginning of Year .....	6,223,187	3,380,140	9,603,327
Prior Period Restatement .....	<u>168,522</u>		<u>168,522</u>
Net Assets - End of Year .....	\$ <u>6,448,839</u>	\$ <u>3,343,371</u>	\$ <u>9,792,210</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Cash Received from Customers .....	\$ 504,170	\$ 291,334	\$ 795,504
Cash (Paid to) Other Funds as Interfund Reimbursements .....	( 176,564)	144,033	( 32,531)
Cash Paid to Employees for Services .....	( 178,042)	( 56,835)	( 234,877)
Cash Paid to Suppliers of Goods and Services .....	( 218,432)	( 365,928)	( 584,360)
Rental Receipts .....	44,222		44,222
Miscellaneous Income .....	<u>5,834</u>	<u>8,923</u>	<u>14,757</u>
Net Cash Provided (Used) by Operating Activities .....	\$( 18,812)	\$ 21,527	\$ 2,715
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Payment for Purchase of Capital Assets .....	\$( 45,971)	\$( 59,749)	\$( 105,720)
Principal Paid on Capital Debt .....	( 24,967)		( 24,967)
Interest Paid on Capital Debt .....	( 2,161)		( 2,161)
Net Cash (Used) by Capital and Related Financing Activities .....	\$( 73,099)	\$( 59,749)	\$( 132,848)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Purchase of Certificates of Deposit .....	\$( 5,969)		\$( 5,969)
Interest Earned on Investments .....	<u>4,622</u>	\$ 1,536	<u>6,158</u>
Net Cash Provided (Used) by Investing Activities .....	\$( 1,347)	\$ 1,536	\$ 189
Net (Decrease) in Cash .....	\$( 93,258)	\$( 36,686)	\$( 129,944)
Cash at Beginning of Year .....	<u>299,491</u>	<u>36,686</u>	<u>336,177</u>
Cash at End of Year .....	\$ <u>206,233</u>	<u>-</u>	\$ <u>206,233</u>
<u>NON-CASH CAPITAL FINANCING ACTIVITIES</u>			
Capital Assets Acquired Through Contributions from Developers .....	\$ <u>92,960</u>	\$ <u>74,815</u>	\$ <u>167,775</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Proprietary Funds</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating (Loss) .....	\$( 38,291)	\$( 97,640)	\$( 135,931)
Adjustments to Reconcile Net Operating (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense .....	180,423	112,101	292,524
Amortization Expense .....	9,327		9,327
(Increase) Accounts Receivable .....	( 1,156)	( 6,667)	( 7,823)
(Increase) in Interfund Receivable .....	( 149,107)		( 149,107)
Decrease in Inventory .....	1,921		1,921
Increase (Decrease) in Accounts Payable .....	2,211	( 131,055)	( 128,844)
Increase in Accrued Wages .....	1,013	337	1,350
Increase in Customer Deposits .....	50		50
Increase in Deferred Revenue .....	1,000		1,000
Increase (Decrease) Interfund Payable .....	( 27,457)	144,033	116,576
Increase in Compensated Absences .....	<u>1,254</u>	<u>418</u>	<u>1,672</u>
Net Cash Provided (Used) by Operating Activities .....	\$( <u>18,812</u> )	\$ <u>21,527</u>	\$ <u>2,715</u>

See Accompanying Notes to Financial Statements

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

A - Financial Reporting Entity

The reporting entity of the Dakota Dunes Community Improvement District (District), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and, other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete. The District does not include any component units within its reporting entity.

B - Basis of Presentation

*Government-Wide Financial Statements*

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients for goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balances, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:



DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.) B - Basis of Presentation - (Continued)

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise funds are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The major funds of the District financial reporting entity are described below:

Governmental Fund

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation of capital assets.

Enterprise Funds - Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The enterprise funds and business-type activities do not apply any FASB Statements and Interpretations issued after November 30, 1989.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.) B - Basis of Presentation (Continued)

Water Fund - Financed primarily by user charges, this fund accounts for the construction, operation and maintenance of the District waterworks system and related facilities.

Sewer Fund - Financed primarily by user charges, this fund accounts for the construction, operation and maintenance of the District sanitary sewer and related facilities.

C- Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

*Measurement Focus*

Government-Wide Financial Statements - In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements - In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental and similar fiduciary fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

*Basis of Accounting*

Government-Wide Financial Statements - In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when they occur (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements - All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the District is 30 days. The revenues which are accrued at December 31, 2010, are cable franchise revenues and reimbursements.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) C - Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued)

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D - Interfund Eliminations and Reclassifications

Government-Wide Financial Statements - In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances.

E - Capital Assets

Capital Assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment of capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) E - Capital Assets (Continued)

Government-Wide Statements - Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2010, balance of governmental activities capital assets are valued at original cost. The total December 31, 2010, balance of business-type capital assets are valued at original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems are recorded at cost, and classified as "Improvements Other Than Buildings".

Depreciation and amortization of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities, with net capital assets reflected in the statement of net assets. Accumulated depreciation and amortization is reported on the government-wide statement of net assets and on each proprietary fund's statement of net assets/balance sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation and amortization methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation/ Amortization Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights .....	All	N/A	N/A
Buildings .....	\$ 50,000	Straight-Line	50 Years
Improvements Other Than Buildings:			
Water/Sewer Lines .....	\$ 25,000	Straight-Line	50 Years
Roads .....	\$ 50,000	Straight-Line	15-75 Years
Other Improvements .....	\$ 10,000	Straight-Line	15-50 Years
Machinery, Equipment and Vehicles .....	\$ 2,500	Straight-Line	5-20 Years
Intangible Assets .....	\$ 25,000	Straight-Line	20-30 Years

Land is an inexhaustible capital asset and is not depreciated.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.) E - Capital Assets (Continued)

Fund Financial Statements - In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

F - Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of notes payable, financing (capital acquisition) leases, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

G - Program Revenues

Program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

Charges for Services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

Program-Specific Operating Grants and Contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Program-Specific Capital Grants and Contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.) H - Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' Statement of Revenues, Expenses, and Changes in Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

I - Cash and Cash Equivalents

The District pools the cash resources of its proprietary funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the Statement of Cash Flows.

J - Equity Classifications

Government-Wide Statements - Equity is classified as net assets and is displayed in three components:

Invested in Capital Assets, Net of Related Debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements - Governmental fund equity is classified as fund balance, and may distinguish between "reserved" and "unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

K - Application of Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available it is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 2 - DEPOSITS AND INVESTMENTS

The District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The District's cash deposits are made in qualified public depositories in the form of demand and time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchased agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

All of the District's investments are in bank certificates of deposits with initial maturities of greater than 90 days.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The District's policy is to credit all income from deposits and investments to the fund making the investment.

Note 3 - RECEIVABLES AND PAYABLES

Receivables and payables due from or to a single party are not aggregated in these financial statements. The District expects all receivables to be collected within a year.

Note 4 - INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 4 - INVENTORY

(Cont.)

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-Wide Financial Statements - In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements - In the fund financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Note 5 - DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Note 6 - PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The District is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the District. The maximum mill levy by state statute is 10.0.



DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 7 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2010, is as follows:

	<u>Balance January 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2010</u>
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,252,320	\$ 4,541	_____	\$ 2,256,861
Total Capital Assets Not Being Depreciated	\$ 2,252,320	\$ 4,541	-	\$ 2,256,861
Capital Assets, Being Depreciated:				
Improvements Other Than Buildings	\$ 25,107,188	\$ 327,240		\$ 25,434,428
Machinery and Equipment	<u>816,382</u>	<u>31,784</u>	_____	<u>848,166</u>
Total Capital Assets Being Depreciated	\$ 25,923,570	\$ 359,024	-	\$ 26,282,594
Less Accumulated Depreciation:				
Improvements Other Than Buildings	\$ 10,846,090	\$ 612,321		\$ 11,458,411
Machinery and Equipment	<u>471,162</u>	<u>82,956</u>	_____	<u>554,118</u>
Total Accumulated Depreciation	\$ 11,317,252	\$ 695,277	-	\$ 12,012,529
Total Net Capital Assets, Being Depreciated	\$ 14,606,318	\$ (336,253)	-	\$ 14,270,065
Governmental Activities Capital Assets, Net	\$ 16,858,638	\$ (331,712)	-	\$ 16,526,926

Depreciation expense was charged to functions as follows:

General Government .....	\$ 2,198
Public Safety .....	15,150
Public Works .....	594,424
Culture and Recreation .....	<u>83,505</u>
Total Depreciation Expense - Governmental Activities .....	\$ <u>695,277</u>

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**Note 7 - CHANGES IN CAPITAL ASSETS**  
(Cont.)

	<u>Balance January 1, 2010</u>	<u>Prior Period Restatement</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2010</u>
<b><u>Business-Type Activities:</u></b>					
<b><u>Capital Assets, Not Being Depreciated/Amortized:</u></b>					
Land	\$ 73,806	_____	_____	_____	\$ 73,806
Total Capital Assets Not Being Depreciated/ Amortized	\$ 73,806	-	-	-	\$ 73,806
<b><u>Capital Assets, Being Depreciated/ Amortized:</u></b>					
Improvements Other Than Buildings	\$ 12,977,668		\$ 227,524	\$ ( 15,480)	\$ 13,189,712
Machinery and Equipment	54,804				54,804
Intangible Assets	_____	\$ 198,893	45,971	_____	244,864
Total Capital Assets Being Depreciated/Amortized	\$ 13,032,472	\$ 198,893	\$ 273,495	\$ ( 15,480)	\$ 13,489,380
<b><u>Less Accumulated Depreciation/ Amortization:</u></b>					
Improvements Other Than Buildings	\$ 3,896,456		\$ 289,185		\$ 4,185,641
Machinery and Equipment	42,443		3,339		45,782
Intangible Assets	_____	\$ 30,371	9,327	_____	39,698
Total Accumulated Depreciation/ Amortization	\$ 3,938,899	\$ 30,371	\$ 301,851	-	\$ 4,271,121
Total Net Capital Assets, Being Depreciated/ Amortized	\$ 9,093,573	\$ 168,522	\$ ( 28,356)	\$ ( 15,480)	\$ 9,218,259
<b><u>Business-Type Activities Capital Assets, Net</u></b>	\$ 9,167,379	\$ 168,522	\$ ( 28,356)	\$ ( 15,480)	\$ 9,292,065

Depreciation and amortization expense was charged to functions as follows:

Water Fund	\$ 189,750
Sewer Fund	112,101
Total Depreciation Expense - Business - Type Activities	\$ 301,851

Capital assets as of January 1, 2010, were restated to include intangible assets generated from payments made to the City of Sioux City in accordance with a 30 year water service agreement entered into on April 1, 2002. The payments were made in 2004, 2005 and 2007. \$198,893 was added to intangible assets and accumulated amortization was increased by \$30,371.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 8 - LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	<u>Balance January 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2010</u>	<u>Due Within One Year</u>
Primary Government:					
Government Activities:					
Financing (Capital					
Acquisition) Lease	\$ 52,161		\$( 16,495)	\$ 35,666	\$ 17,372
Financing (Capital	9,542		( 9,542)	-	
Acquisition) Lease	<u>3,158</u>	\$ <u>4,795</u>	( <u>3,158</u> )	<u>4,795</u>	<u>-</u>
Compensated Absences					
Total Governmental					
Activities	\$ 64,861	\$ 4,795	\$( 29,195)	\$ 40,461	\$ 17,372
Business-Type Activities:					
SRF Loan	\$ 71,032		\$( 24,967)	\$ 46,065	\$ 25,852
Compensated Absences	<u>4,165</u>	\$ <u>5,837</u>	( <u>4,165</u> )	<u>5,837</u>	<u>-</u>
Total Business-Type					
Activities	\$ <u>75,197</u>	\$ <u>5,837</u>	\$( <u>29,132</u> )	\$ <u>51,902</u>	\$ <u>25,852</u>
Total Primary					
Government	\$ <u>140,058</u>	\$ <u>10,632</u>	\$( <u>58,327</u> )	\$ <u>92,363</u>	\$ <u>43,224</u>

Debt Payable at December 31, 2010, is comprised of the following:

The SRF Loan is Payable in Quarterly Payments of \$6,782 with an Interest Rate of 3.5 Percent and will Mature July 1, 2012.

Payments will be Made from the Water Fund ..... \$ 46,065

Compensated Absences Are Amounts Due to Employees for Accrued Sick Leave. Payments will Be Made from the General Fund ..... \$ 4,795

Compensated Absences are Amounts Due to Employees for Accrued Sick Leave. Payments will be Made from the Water Fund ..... \$ 4,378

Compensated Absences Are Amounts Due to Employees for Accrued Sick Leave. Payments will Be Made from the Sewer Fund ..... \$ 1,459

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 8 - LONG-TERM LIABILITIES  
(Cont.)

Financing (Capital Acquisition) Lease - Street Sweeper, Payable  
in Annual Payments of \$19,265 and will Mature April 1, 2012.  
Payments will be Made from the General Fund ..... \$ 35,666

The gross amount of capital assets recorded in the balance sheet as financing leases is \$167,088, and is being depreciated over the shorter of the estimated useful-life of the asset, or the lease term, as appropriate.

The annual requirements to amortize all debt outstanding as of December 31, 2010, except for compensated absences are as follows:

<u>Ending December 31,</u>	<u>SRF Loan</u>		<u>Financing (Capital Acquisition) Leases</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 25,852	\$ 1,275	\$ 17,372	\$ 1,893	\$ 43,224	\$ 3,168
2012	<u>20,213</u>	<u>357</u>	<u>18,294</u>	<u>971</u>	<u>38,507</u>	<u>1,328</u>
Total	\$ <u>46,065</u>	\$ <u>1,632</u>	\$ <u>35,666</u>	\$ <u>2,864</u>	\$ <u>81,731</u>	\$ <u>4,496</u>

Note 9 - OPERATING LEASES

The District leases office space in the Dakota Dunes Welcome Center building. Payments are made from the General Fund, the Water Fund and the Sewer Fund. The initial lease term was five years, terminating November 30, 2006, with three five-year renewal options. During 2006, the District exercised the first five-year option.

The District also leases a maintenance building and a cold storage facility. These leases were renewed during April 2010 for a five year period, with five one-year renewal options.

The following are the minimum payments on existing operating leases:

<u>Years Ending</u>	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
2011	\$ 45,963	\$ 11,221	\$ 3,741	\$ 60,925
2012	31,001			31,001
2013	31,001			31,001
2014	31,001			31,001
2015	<u>7,750</u>			<u>7,750</u>
	\$ <u>146,716</u>	\$ <u>11,221</u>	\$ <u>3,741</u>	\$ <u>161,678</u>

Total rental expenditures for operating leases for the year ended December 31, 2010, were \$64,396.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**Note 10 - INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES**  
Interfund receivable and payable balances at December 31, 2010, were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund .....		\$ 5,074
Enterprise Funds:		
Water .....	\$ 149,107	
Sewer .....		<u>144,033</u>
Total .....	\$ <u>149,107</u>	\$ <u>149,107</u>

Interfund receivable and payable balances represent amounts due to/from other funds. Additionally, the water and sewer funds share a common cash account so the interfund balance between the water and sewer fund is the sewer fund's share of the cash balance on hand in the water fund. All interfund activity is expected to be repaid within one year.

**Note 11 - RETIREMENT PLAN**

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

Full-time employees are required by state statute to contribute 6% of their salary to the plan. A full-time employee is defined as one who works at least twenty hours per week for six months of the year. State statute requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2010, 2009 and 2008, were \$23,588, \$23,405, and \$23,028, respectively, equal to the required contributions each year.

# DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

### Note 12 - LITIGATION

During January 2010, the District was named as a defendant in a claim filed by a Dakota Dunes resident. The complaint does not contain any specific factual statements claiming that the District is responsible for monetary damages and therefore the District does not anticipate any loss as a result of this litigation.

### Note 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2010, the District managed its risks as follows:

Liability Insurance - The District is a member of the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to provide coverage for torts, auto liability, and physical damage; and errors and omissions of public officials.

The agreement with the SDPAA provides that the above coverage will be provided to varying limits. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit.

A portion of the member premiums are also allocated to a cumulative reserve fund. The District would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of District's	First Full Year	50%
End of District's	Second Full Year	60%
End of District's	Third Full Year	70%
End of District's	Fourth Full Year	80%
End of District's	Fifth Full Year	90%
End of District's	Sixth Full Year and Thereafter	100%

As of December 31, 2010, the District has vested balance in the cumulative reserve fund of \$12,190 and a total balance, including the non vested portion, of \$12,841.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**Note 13 - RISK MANAGEMENT**

(Cont.)

The District carries a \$1,000 deductible for the automobile coverage, a \$2,500 deductible for machinery coverage, \$1,000 deductible for buildings, contents and municipal income, and \$250 deductible for miscellaneous property coverage.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Workers' Compensation - The District is a member of the South Dakota Municipal League Workers' Compensation Fund (SDMLWC), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDMLWC is to formulate, develop, and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the SDMLWC to resolve any workers' compensation claims. The District pays an annual premium to the pool to provide workers' compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance, which covers up to an additional \$1,675,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits - The District has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. At December 31, 2010, no claims for unemployment benefits were filed or paid.

**Note 14 - RELATED PARTY TRANSACTIONS**

The District leases a maintenance building from a related party. A board member of the District is also a key employee of the related party. Total lease payments made to the related party were \$29,598 for the year ended December 31, 2010.

**Note 15 - SUBSEQUENT EVENT**

In preparing the financial statements, the District has evaluated all subsequent events, for potential recognition or disclosure, through November 10, 2011, the date the financial statements were available to be issued.

The District experienced a significant flooding event from June 2011 through September, 2011, requiring emergency construction of a levee system to protect the District's infrastructure and other real property within the District. In addition, other emergency actions were taken including the evacuation of approximately 50% of the residential area within the District. In order to pay for these emergency actions, during June 2011, the District entered into a loan agreement with the state of South Dakota for \$15,000,000. The loan will be repaid with a combination of state and Federal agency reimbursements, a District property opt out tax and water utility surcharge. The final cost to be paid by the District, the amount of the agency reimbursements to be received, and the long term impact on the District's tax base are not known at this time, but may materially impact the District's operations.

## OTHER SUPPLEMENTARY INFORMATION



DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

OTHER SUPPLEMENTARY INFORMATION

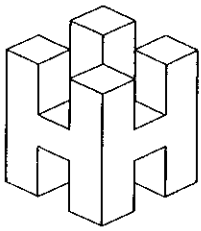
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u> <u>Original and Final</u>	<u>Actual</u> <u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES</b>			
Property Taxes .....	\$ 981,831	\$ 987,767	\$ 5,936
Charges for Goods and Services .....	3,500	4,275	775
Investment Earnings .....	4,500	2,073	( 2,427)
Rentals .....	2,250	2,250	-
Other .....	<u>15,000</u>	<u>20,295</u>	<u>5,295</u>
Total Revenues .....	\$ 1,007,081	\$ 1,016,660	\$ 9,579
<b>EXPENDITURES</b>			
General Government .....	\$ 299,900	\$ 288,349	\$ 11,551
Public Safety .....	73,000	71,303	1,697
Public Works .....	201,150	186,969	14,181
Culture and Recreation .....	236,500	249,070	( 12,570)
Capital Outlay .....	130,000	66,728	63,272
Debt Service .....	<u>29,300</u>	<u>29,312</u>	<u>( 12)</u>
Total Expenditures .....	\$ <u>969,850</u>	\$ <u>891,731</u>	\$ <u>78,119</u>
Net Change in Fund Balance .....	\$ 37,231	\$ 124,929	
Fund Balance - Beginning of Year .....	<u>454,368</u>	<u>454,368</u>	
Fund Balance - End of Year .....	\$ <u>491,599</u>	\$ <u>579,297</u>	

Notes:

1. The District does not have a state imposed requirement for a legally adopted budget; but is required to submit an annual budget to Union County. This budgetary comparison schedule is presented for supplementary analysis purposes and compares actual operating results for the general fund with amounts budgeted and approved by the District's Board of Supervisors.
2. The budget is prepared in accordance with the modified accrual basis of accounting.
3. The expenditures for culture and recreation exceeded budgeted amounts due to the 2010 snow storms resulting in additional overtime pay, contract work and fuel costs.



**HENJES, CONNER &  
WILLIAMS, P.C.**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

Board of Supervisors  
Dakota Dunes Community  
Improvement District  
Union County, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT (the District), Union County, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2010-02 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 2010-01 to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dakota Dunes Community Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors and others within the Entity and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

Sioux City, Iowa  
November 10, 2011

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2010

STATUS OF PRIOR AUDIT FINDINGS

2009-01      Financial Statement Preparation

The District does not have a system of internal control over the preparation of the financial statements and note disclosures. The District has determined that the costs outweigh the benefits and has continued to have the auditor draft the financial statements and note disclosures.

2009-02      Financial Accounting - Recording Errors

The District has posted the required entries to correct the 2009 recording errors.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

DECEMBER 31, 2010

Part I: Summary of the Independent Auditor's Results

- (a) A unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, one of the deficiencies is considered a material weakness.
- (c) The audit did not disclose non-compliance, which is material to the financial statements.
- (d) See Schedule of Prior Audit Findings for the status of prior audit findings.

Part II: Findings Related to the Financial Statements

Significant Deficiency:

2010-01 Financial Statement Preparation

*Condition* - The District does not have a system of internal control over the preparation of the financial statements and note disclosures.

*Criteria* - The financial statements are the responsibility of the District's management. A system of internal control over financial reporting includes controls over financial statement preparation, including note disclosures.

*Cause* - The District does not have the resources available to draft the financial statements and note disclosures.

*Effect* - Henjes, Conner, & Williams, PC drafted the financial statements and note disclosures.

*Recommendation* - We recommend that management and the Board review the process for financial statement preparation in order to maximize internal controls.

*Response* - The District reviews the financial statements and note disclosures and makes changes as appropriate. The District understands the nature of the control deficiency and will continue to assess the cost/benefit of designing and implementing controls over financial statement preparation.

DAKOTA DUNES COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

DECEMBER 31, 2010

Part III: Findings Related to the Financial Statements

Material Weakness:

2010-02 Financial Accounting - Recording Errors

*Condition* - We noted material reporting errors on the District's annual financial report related to capital assets.

*Criteria* - Proper financial reporting requires that transactions be recorded accurately and completely.

*Cause* - Material adjustments had to be made to accurately reflect financial position and proper presentation of certain transactions.

*Effect* - Financial statements that are not prepared completely and accurately diminish the reliability of the financial data supplied to users.

*Recommendation* - Care should be taken to properly report all transactions to allow the preparation of financial statements that are complete and accurate in accordance with U.S. generally accepted accounting principles.

*Response* - The District will strive to properly record transactions to allow for accurate financial statement preparation.